37

INDICATE:
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EXCISE

Circular

P.E.T

044883

6 LIBYA
XR PET 14
PET 3 OECD

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ACTION: ALL OECD CAPITALS
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Pet 6 Libya

044883

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY cd DATE 6 Oct 81
PORTIONS DENIED AS INDICATED

REF: Tripoli 543 and previous; London 2360 (NOTAL)

Pet 6 Libya
XR
Pet 14

SUBJ: Libyan Oil Negotiations

1. If current Libyan demands are fully met, increased cost per barrel of Libyan oil to companies ~~xxxxx~~ would be approximately as follows:

A. 30 cent permanent increase, plus

B. 16 cent temporary increase as long as Suez Canal remains closed and tanker rates are high, plus

C. 7 cent increase for inflation which would probably come into effect almost immediately, plus a similar increase for ~~x~~ inflation which would be added on the first of

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3

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2

January 1973, 1974, and 1975, plus

D. A surcharge of 5 to 10 ~~ER~~ cents/barrel (possibly more) for alleged underpayment of taxes and royalties by companies since 1965.

2. Total additional cost of Libyan oil to companies could therefore be 58 to 63 cents/barrel (about 1.5 cents/gallon) which would be reduced by 16 cents/barrel should the Suez Canal be reopened and tanker rates fall to pre-June 1967 levels.

3. Assuming an increase in payments to Libya of 60 cents/barrel, 30 cents cost of production, 30 cents profit, and 40 cents transportation costs to US Channel ports, plus existing payments of about 1.30 dollars to Libya, new delivered price of Libyan oil to Europe could be in the neighborhood of 2.90 dollars per barrel. This compares with price a year ago which was in the range of around 2.00 to 2.10 dollars per barrel. However, it is of course not possible to predict the exact price companies will now

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charge refiners because of varying cost of crudes from other sources and variations in profit margins.

4. Companies have not rpt not agreed to these price demands, and other important issues such as the duration of the agreement remain unresolved. However industry negotiating team reportedly believes offer close to these terms, particularly including the permanent increase demanded of 30 cents, must be made at next meeting scheduled for Thursday, March 18 if drastic action by Libyans is to be avoided, including possible partial or total nationalization of one or more companies and/or some limitation of oil exports.

5. Some companies also now prepared to add sufficient other elements to bring total package to something near the 58 to 63 cents which LARG demands. These companies believe settlement along these lines will be worked out in the next few days. (FYI - [redacted] B4

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[redacted]

END KX FYI).

6. Terms of a settlement in Libya would also be basis for similar terms on other oil exported from Mediterranean terminals by Algeria, Iraq, and Saudi Arabia.

7. [redacted]

8. Action posts should brief host officials on the above.

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END.

ROGERS

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- 68